

<b>Agency:</b>	<b>107</b> Health Care Authority
<b>Decision Package Code/Title:</b>	<b>PL- EP</b> Critical Access Hospital-Pmt Method
<b>Budget Period:</b>	<b>2012 Supplemental</b>
<b>Budget Level:</b>	<b>PL –</b> Performance Level

#### **Fiscal Detail/Objects of Expenditure**

	<b>FY 2012</b>	<b>FY 2013</b>	<b>Total</b>
<b>1. Operating Expenditures:</b>			
Fund 001-1 General Fund State	\$ -	\$ (19,143,000)	\$ (19,143,000)
Fund 001-2 GF-Federal - Basic	\$ -	\$ (101,000)	\$ (101,000)
Fund 001-C GF-Federal - Medicaid	\$ -	\$ (19,042,000)	\$ (19,042,000)
Fund 001-7 GF-Private/Local	\$ -	\$ -	\$ -
Fund 418-1 HCA Admin Account	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ (38,286,000)</b>	<b>\$ (38,286,000)</b>
<b>2. Staffing:</b>			
Total FTEs	-	-	-
<b>3. Objects of Expenditure:</b>			
A - Salaries And Wages	\$ -	\$ -	\$ -
B - Employee Benefits	\$ -	\$ -	\$ -
C - Personal Service Contracts	\$ -	\$ -	\$ -
E - Goods And Services	\$ -	\$ -	\$ -
G - Travel	\$ -	\$ -	\$ -
J - Capital Outlays	\$ -	\$ -	\$ -
N - Grants, Benefits & Client Services	\$ -	\$ (38,286,000)	\$ (38,286,000)
Other (specify) -	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ (38,286,000)</b>	<b>\$ (38,286,000)</b>
<b>4. Revenue:</b>			
Fund 001-2 GF-Federal - Basic	\$ -	\$ (101,000)	\$ (101,000)
Fund 001-C GF-Federal - Medicaid	\$ -	\$ (19,042,000)	\$ (19,042,000)
Fund 001-7 GF-Private/Local	\$ -	\$ -	\$ -
Fund 418-1 HCA Admin Account	\$ -	\$ -	\$ -
<b>Total</b>	<b>\$ -</b>	<b>\$ (19,143,000)</b>	<b>\$ (19,143,000)</b>

#### **Recommendation Summary Text**

Health Care Authority (HCA) submits spending reductions totaling -\$36,366,000 (-\$19,183,000 GF-State) in the 2012 Supplemental. These savings would result from changing the payment method for Critical Access Hospitals to that used for most other hospitals and would be effective July 1, 2012. This submittal is in response to the request for a ten percent across-the-board reduction plan.

#### **Package Description**

Health Care Authority (HCA) submits spending reductions totaling -\$36,366,000 (-\$19,183,000 GF-State) in the 2012 Supplemental. This submission is in response to the request for a ten percent across-the-board reduction plan.

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These savings would result from paying Critical Access Hospitals (CAH) with the methods applied to other hospitals. For inpatient services, Prospective Payment System 8 (PPS8) rates will be applied, primarily using Diagnostic Related Group and Per Diem payment methods. Outpatient Prospective Payment System rates (OPPS) will be applied for outpatient services, primarily using the Ambulatory Payment Classification (APC) methodology.

These methods replace payment based on a percent of charges billed by the hospital (Departmental Weighted Cost to Charge ratio method) and would become effective July 1, 2012.

Questions related to the fiscal portion of this decision package should be directed to Rachel Arnold at (360) 725-1030 or [rachel.arnold@hca.wa.gov](mailto:rachel.arnold@hca.wa.gov).

Questions related to the programmatic portion of this package should be directed to Dylan Oxford at (360) 725-2130 or [Dylan.Oxford@hca.wa.gov](mailto:Dylan.Oxford@hca.wa.gov).

#### **Narrative Justification and Impact Statement**

This proposal is intended to meet the Governor's request for agencies to submit plans for 10 percent reductions as a result of expected revenue shortfall for the 2011-13 Biennium.

#### **What specific performance outcomes does the agency expect?**

This reduction package identifies savings in response to instructions provided by the Office of Financial Management (OFM) for the 2012 Supplemental Budget.

#### **Performance Measure Detail**

This reduction decision package will change the payment methodology for critical access hospitals to a standard fee for service payment system, and is estimated to save -\$38,366,000 in total funds for Fiscal Year 2013.

Activity:	H056	Mandatory Medicaid Program for Children and Families
Activity:	H057	Medicaid for Optional Children
Activity:	H058	Medicaid Program for Aged, Blind, and Disabled
Activity:	H089	SCHIP

#### **Is this decision package essential to implement a strategy identified in the agency's strategic plan?**

Yes. This package will assist the agency in meeting the targeted reductions as identified by OFM.

#### **Does this decision package provide essential support to one of the Governor's priorities?**

Yes. This package assists the agency in implementing changes to meet the reduction targets identified by OFM as part of the 2012 Supplemental Budget and keeping the state's budget balanced.

#### **Does this decision package make key contributions to statewide results? Would it rate as a high priority in the Priorities of Government (POG) process?**

Yes. This package assists the agency in implementing changes to meet the reduction targets identified by OFM as part of the 2012 Supplemental Budget.

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**What are the other important connections or impacts related to this proposal?**

HCA will need to examine how the hospital safety net assessment (HSNA) will be applied with these changes. Will these hospitals also get rate increases? Once these decisions are made, HCA will need to recalibrate the HSNA model.

HCA will need to examine whether this change in payment methodology constitutes a rate reduction. Rate reductions require a rate study. We contract out for these as we do not have the expertise in house to do them.

**What alternatives were explored by the agency, and why was this alternative chosen?**

Not Applicable.

**What are the consequences of not funding this package?**

The agency will not be able to meet its budget reduction targets.

**What is the relationship, if any, to the state capital budget?**

None.

**What changes would be required to existing statutes, rules, or contracts, in order to implement the change?**

Several sections of WAC Chapter 182-550, Hospital Services, would need updates. This would include WAC 182-550-2598 for Critical Access Hospitals, WAC 182-550-3000 for the DRG Payment method, and WAC 182-550-6000 for Outpatient Hospital Services.

**Expenditure and revenue calculations and assumptions.**

***Revenue Calculations and Assumptions:***

None.

***Expenditure Calculations and Assumptions:***

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<b>2012 Supplemental Budget</b>			
PL- EP Critical Access Hospital Payment Methodology Change			
<b>Fiscal Details/Object of Expenditures</b>	<b>FY12</b>	<b>FY13</b>	<b>Total</b>
001-1 General Fund – Basic Account - State	\$ -	\$ (19,183,000)	\$ (19,183,000)
001-C General Fund – Basic Account – Medicaid Federal	\$ -	\$ (19,183,000)	\$ (19,183,000)
<b>Total Overall Funding</b>	-	(38,366,000)	(38,366,000)
<b>HCA Source Code Detail</b>	<b>FY12</b>	<b>FY13</b>	<b>Total</b>
<b>Fund 001-1 General Fund - Basic Account - State</b>			
0011 General Fund State	-	(19,183,000)	(19,183,000)
<b>Total for Fund 001-1</b>	-	(19,183,000)	(19,183,000)
<b>Fund 001-C General Fund - Basic Account - Medicaid Federal</b>			
19TA Title XIX Assistance (FMAP)	-	(19,183,000)	(19,183,000)
<b>Total for Fund 001-C</b>	-	(19,183,000)	(19,183,000)
<b>Total Overall Funding</b>	-	(38,366,000)	(38,366,000)
<b>Assumptions:</b>			
<ul style="list-style-type: none"> <li>- All data is modeled from State Fiscal Year 2010 CAH claims</li> <li>- Outpatient growth is trended at 6.09% annually</li> <li>- Inpatient growth is trended at 4.76% annually</li> <li>- For Outpatient, CAH providers were assumed to have the same (current rural WA) OPPS rate (1.00408) and OP RCC ratio (0.126)</li> <li>- For Inpatient, CAH providers were estimated based on the 7/1/2009 lowest DRG and PerDiem rates (i.e. rates paid to border and out of state hospitals).</li> <li>- All payments were assumed at the Restored rates guaranteed by the Hospital Safety Net Assessment (as the restored rates are provided for all providers). Increased payments from the Safety Net would require additional calculation.</li> </ul>			

**Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?**

***Distinction between one-time and ongoing costs:***

These changes in funding are ongoing and will carry forward into future biennia.

***Budget impacts in future biennia:***

These changes in funding are ongoing and will carry forward into future biennia.